

**DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT****Division of Housing Policy Development**

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July 1, 1999

**MEMORANDUM FOR:** Redevelopment Agencies

Cathy E. Creswell, Acting Deputy Director  
**Division of Housing Policy Development**

**FROM:**

**SUBJECT: Calculating and Reporting Excess Surplus**

This memorandum describes the appropriate method to calculate and report on excess surplus funds pursuant to State redevelopment law. For purposes of the Department's annual reporting on redevelopment agencies, HCD has changed the method of calculating "excess surplus" funds in the Low and Moderate Income Housing Fund (L&M Fund). This change will be reflected in HCD's FY 1998/99 reporting forms which may have an impact on some agencies' financial reporting and accounting procedures. This decision was recently reached after careful analysis of program and financial issues and interpretations from both the Department's legal staff and attorneys representing redevelopment agencies.

Excess surplus is a critical issue because, in correcting our reporting methodology, the annual report may indicate that some agencies already may be subject to penalties and other agencies may have one year less to eliminate their excess surplus before being penalized. Pursuant to Health & Safety (H&S) Code Section 33334.12(a)(2), "after three years has elapsed from the date that the moneys become excess surplus, the agency shall be subject to sanctions ...." Sanctions include: (1) limiting an agency's ability to encumber and expend funds, and (2) imposing a financial penalty equal to 50 percent of the amount of excess surplus remaining after three years. The financial penalty must not be funded from the agency's L&M Fund.

At issue was whether excess surplus is calculated at the beginning or at the end of the fiscal year. Therefore, HCD is alerting agencies of the appropriate method of calculating and reporting excess surplus for annual reporting purposes and clarifying specific statutory provisions and dates in which penalties are to be applied for excess surplus funds, pursuant to H&S Code Section 33334.12.

**Change in Calculating and Reporting Excess Surplus**

Legal interpretations of H&S Code Section 33334.12 have determined that "excess surplus" occurs at the beginning of a reporting year (based on "carry-over unencumbered and adjusted balances"), not at the end of a reporting year (based on final unencumbered and adjusted balances). Excess surplus therefore is calculated using the unencumbered (adjusted) balance at

the beginning of the “reporting year” (immediately after the four-year L&M Fund aggregation period) rather than the final unencumbered (adjusted) balance at the end of the full fiscal year after the four-year aggregation period. That beginning unencumbered (adjusted) balance then is compared to the greater of either \$1 million or the L&M Fund aggregation of the previous four fiscal years.

### **Clarification of Excess Surplus Statutory Provisions and Dates**

Based on our corrected reporting methodology and the current requirements of law, “July 1, 1994” is the first date in which an excess surplus could exist. This July 1, 1994 date is used twice as a trigger for identification of excess surplus.

For the accumulation years of 1989-90, 1990-91, 1991-92, and 1992-93, because of a special one time legislative provision, the initial “excess surplus” result does not materialize until July 1, 1994. The consequences of accruing that first-year excess surplus are subject to the following special statutory requirements: (1) January 1, 1995 is the date for the agency to decide whether to transfer the excess surplus to a housing authority, and (2) January 1, 1997 is the date for those agencies which did not elect to transfer the excess surplus to spend or encumber the funds in order to avoid the penalties.

The excess surplus which occurs in the “second year” (based on 1990-91, 1991-92, 1992-93, and 1993-94), again is identified on July 1, 1994, this time because that is the date immediately after the four-year accumulation. The normal rules for expenditure, encumbrance, or transfer apply to this second, and subsequent, excess surplus accumulations: the agency with excess surplus has one year to transfer the excess surplus to the local housing authority and two additional years to fully spend or encumber the excess surplus in order to avoid the penalties. Thus, for example, in the second year, an agency must either elect to transfer the excess surplus by July 1, 1995, or expend or encumber the excess surplus by July 1, 1997.

### **Future Reporting**

HCD has made the necessary changes to its FY 1998-99 reporting forms (Schedule C) to reflect the appropriate determination of excess surplus. HCD is beginning a process to determine and advise which agencies are subject to penalty. Also, we are beginning to evaluate the best way for agencies to report the existence of excess surplus; the required transfer, expenditure, or encumbrance; and the amount and expenditure of the penalty deposit to eliminate additional sanctions. The reporting forms for FY 1999-2000 will be revised accordingly. HCD will, as it has done in the past, work in cooperation with redevelopment agencies to address these reporting and excess surplus issues.

We hope that being proactive in quickly notifying you about this matter will facilitate your efforts to comply with requirements pertaining to excess surplus. Attached is HCD training material pertaining to the proper calculation of excess surplus with various examples. If you have questions about these or other redevelopment issues, please contact either Gary Da Prato or Glen Campora, of my staff, at (916) 445-4728.

Attachments

## **Excess Surplus Calculation Procedures and Samples**

“Excess surplus” is defined as any unexpended and unencumbered amount that exceeds the greater of either \$1,000,000 or the aggregate (total) amount deposited into the Low and Moderate Income Housing Fund (Housing Fund) during the preceding four fiscal years.

For the first year’s calculation (which is explicitly prescribed by statute), the four fiscal years to be considered are 1989-90, 1990-91, 1991-92, and 1992-93. The amount of excess surplus was calculated based on the aggregate sum of those fiscal years or \$1,000,000. In order to allow for a transition to the revised calculation method (post AB 1290), the first date by law that excess surplus was deemed to exist was prescribed by statute as July 1, 1994, rather than July 1, 1993.

The calculation for the second and subsequent years follows the normal formula. In the second year, the fiscal years to be considered are 1990-91, 1991-92, 1992-93 and 1993-94. The amount of excess surplus was calculated based on the aggregate sum of those fiscal years or \$1,000,000 and was determined as a fixed amount on July 1, 1994. (The fact that this date occurs twice is not an error; it occurs because of the way the law was written.)

In the next subsequent year (third year), the fiscal years to be considered are 1991-92, 1992-93, 1993-94, and 1994-95. The amount of excess surplus was calculated based on the aggregate sum of those fiscal years or \$1,000,000 and was determined as a fixed amount on July 1, 1995.

If excess surplus exists, or is expected to exist, agency management should prepare an appropriate course of action to eliminate the excess in the following fiscal year. In effect, during the first year that excess surplus exists, an agency has one year to either expend, encumber, or transfer the funds to a local housing authority. If these events do not occur, the agency has two more years to either expend or encumber the funds, or else be assessed severe statutory penalties.

For example, an agency having excess surplus funds on July 1, 1995, had until July 1, 1996 to take initial steps to deplete the excess or transfer the money to the housing authority. If this did not occur, it had until July 1, 1998, to expend or encumber the funds. Beginning on July 1, 1998, the penalties would apply. See, Health and Safety Code (H&SC) Section 33334.12 for further detail.

### **Determination of Excess Surplus:**

1. ***Identify the Adjusted Balance from your previous year's reporting forms (Schedule HCD-C).***
2. ***Determine whether excess surplus exists:*** There is no excess surplus if the previous reporting year's final Adjusted Balance is less than either: (1) \$1,000,000, or (2) the sum of the previous four year's deposited tax increments. For excess surplus to exist, the Adjusted Balance must be greater than both: (1) \$1,000,000, and (2) the sum of all tax increment deposited into the Housing Fund during the preceding four fiscal years.
3. ***Calculate Excess Surplus as follows:***
  - a) If the sum of the tax increment for the four preceding fiscal years is less than \$1,000,000, then excess surplus equals the adjusted balance minus \$1,000,000.
  - b) If the sum of the tax increment for the four preceding fiscal years is more than \$1,000,000, then excess surplus equals the adjusted balance minus the sum of tax increment for the four preceding fiscal years.

**Next, calculate the Adjusted Balance to be used for the next reporting year as follows:**

4. ***Calculate the unencumbered balance:*** The unencumbered balance is determined by subtracting encumbrances committed pursuant to agreements or contracts authorized for allowable expenditure of the Housing Fund, as referenced in H&S Code Section 33334.12(g)(2), from the Net Resources Available at the end of the year. **Note: Beginning with the 1998/99 reporting year, it is important to report the designated and undesignated portions of the unencumbered balance.**
5. ***Calculate the Adjusted Balance:*** Subtract from the Unencumbered Balance, the following adjustments, if applicable, to calculate the Adjusted Balance:
  - a) Debt Proceeds adjustment: If H&S Code Section 33334.12(g)(3)(B) applies, subtract the available portion of debt proceeds and income related thereto that remains in the Housing Fund.
  - b) Land Sales adjustment: If all of the specific conditions and requirements in H&SC Section 33334.12(g)(3)(A) apply, subtract any deficit realized through the conveyance of land acquired with money from the Housing Fund. Calculate the deficit as follows: (1) From the fair market value of the land, subtract the amount for which the agency sells, leases, or grants land.

## SCHEDULE HCD-C

Agency-wide Activity

for Fiscal Year Ended 06/30/1999

Agency Name: Hometown Redevelopment Agency

Preparer's Name, Title: Mr. Blight

Preparer's E-Mail Address: www.com@Blight-be-gone

Preparer's Telephone No: (000) 456-COOL

Preparer's Facsimile No: (000) TOO-COOL

### Low & Moderate Income Housing Funds

Report on the "status and use of the agency's Low and Moderate Income Housing Fund," including information developed to comply with Sections 33080.4(a)(6) and (a)(8). Information reported here should be based on that reported to the State Controller.

#### 1. Beginning Balance

(Should equal line 4, "Net Resources Available" from last year's HCD-C form): \$2,100,000

If Beginning Balance is not the same as Line 4 from Schedule HCD-C for FY 97/98, indicate the amount of, and reason(s) for each difference: \_\_\_\_\_.

#### 2. Resources:

##### a. Total Resources From Project Areas:

(Sum of amount(s) from line 3k. on Schedule HCD-A(s)): \$ 450,000

##### b. Other resources not reported on Schedule HCD-A(s)

(Specify: \_\_\_\_\_): \$ \_\_\_\_\_

#### 3. Subtotal of Expenditures and Other Uses (total of HCD-C, pages 2-3, lines 3a.-k. below): (\$ 450,000)

##### **NOTE:**

**The line items below were expanded to include specific line items from the State Controller's Annual Report of Financial Transactions of Community Redevelopment Agencies to facilitate preparation of the report.**

**Dollar amounts for items where an italicized line number is noted in parentheses can be taken directly from the line number(s) on the State Controller's Annual Report of Financial Transactions of Community Redevelopment Agencies, Consolidated Income Statement, except for reclassifying of Transfers-Out to Internal Funds and the reporting of Other Uses as discussed below.**

**Transfers-out to other internal funds: The specific use of transferred funds must be reported on HCD-C lines 3a.-k. For example: transfers from the Housing Fund to the Debt Service Fund for the repayment of debt should be reported in line 3c. Any transfers out of the Agency (for example: the transfer of excess surplus funds to the Housing Authority) should be reported in line 3j(3).**

**Other Uses: Non-GAAP expenditures such as land purchases for those Agencies using the Land Held for Resale method to record land purchases should be reported on HCD-C line 3a(1). Money spent on loans from the Housing Fund should be included in lines 3b., 3f., 3g. and 3h. as appropriate.**

**ALWAYS REFER TO THE COMMUNITY REDEVELOPMENT LAW TO DETERMINE THE APPROPRIATENESS OF EXPENDITURES FROM THE LOW AND MODERATE INCOME HOUSING FUND. HCD IS NOT REPRESENTING THAT ALL IDENTIFIED EXPENDITURES ARE ALLOWABLE EXPENDITURES OR USES.**

Agency Name: Hometown Redevelopment Agency

3. Subtotal of Expenditures and Other Uses (continued)

a. Property Acquisition:

Acquisition of Property/Building Sites (33334.2(e)(1)) & Housing Acquisition (33334.2(e)(6)):

(1) Real Estate Purchases ( <i>line 17</i> ):	\$ _____
(2) Acquisition Expense ( <i>line 20</i> ):	\$ _____
(3) Operation of Acquired Property ( <i>line 21</i> ):	\$ _____
(4) Relocation Costs ( <i>line 22</i> ):	\$ _____
(5) Relocation Payments ( <i>line 23</i> ):	\$ _____
(6) Site Clearance Costs ( <i>line 24</i> ):	\$ _____
(7) Disposal Costs ( <i>line 26</i> ):	\$ _____
(8) Other (Specify) _____:	\$ _____
Property Acquisition Subtotal:	\$ _____

b. Subsidies to LMIHF:

Housing subsidies (33334.2(e)(8)):

(1) 1 <sup>st</sup> Time Homebuyer Down Payment Assistance:	\$ 75,000
(2) Rental Subsidies:	\$ _____
(3) Purchase of Affordability Cov. (33413(b)(2)(B)):	\$ _____
(4) Other (Specify) _____:	\$ _____
Subsidies Subtotal to LMIHF ( <i>line 31</i> )	\$ 75,000

c. Debt Service (33334.2(e)(9)):

(1) Debt Principal Payments:	
(a) Tax Allocation, Bonds & Notes:	\$ 150,000
(b) Revenue Bonds & Certificates of Participation:	\$ _____
(c) City/County Advances & Loans:	\$ _____
(d) U. S., State & Other Long Term Debt :	\$ _____
(2) Interest Expense Costs ( <i>line 29</i> ):	\$ _____
(3) Debt Issuance Costs ( <i>line 31.1</i> ):	\$ _____
(4) Other (Specify) _____:	\$ _____
Debt Service Subtotal:	\$ 150,000

d. Planning and Administration Costs (33334.3(e)(1)):

(1) Administration Costs ( <i>line 14</i> ):	\$ 50,000
(2) Professional Services (not project based) ( <i>line 15</i> ):	\$ _____
(3) Plan, Survey/Design (not project based) ( <i>line 16</i> ):	\$ 25,000
(4) Indirect Nonprofit Costs (33334.3(e)(1)(B)):	\$ _____
(5) Other (Specify) _____:	\$ _____
Planning and Administration Costs Subtotal:	\$ 75,000

3. Subtotal of Expenditures and Other Uses (continued)

- e. On/Off-Site Improvements (33334.2(e)(2)): \$ \_\_\_\_\_
- f. Housing Construction (33334.2(e)(5)): \$ \_\_\_\_\_
- g. Housing Rehabilitation (33334.2(e)(7)), (lines 27 & 28): \$ 150,000
- h. Maintaining the Supply of Mobilehome Parks (33334.2(e)(10)): \$ \_\_\_\_\_
- i. Preservation of At-Risk Units (33334.2(e)(11)): \$ \_\_\_\_\_
- j. Transfers Out of Agency:
  - (1) For Use Outside Community (33334.17) \$ \_\_\_\_\_
  - (2) For Transit Village Development Plan (33334.19): \$ \_\_\_\_\_
  - (3) Excess Surplus (33334.12(a)(1)(A)): \$ \_\_\_\_\_
  - (4) Other (cite code section authorizing the transfer): \$ \_\_\_\_\_
  - Code Section \_\_\_\_\_
- Total Transfer Out of Agency:** \$ \_\_\_\_\_
- k. Other (Specify) \_\_\_\_\_: \$ \_\_\_\_\_

4. Net Resources Available (End of Year [1.+2a.+2b.-3a-k.]): \$2,100,000

5. Other Housing Fund Assets (not included on Line 4, above):

- a. Value of Land Purchased with Housing Funds and Held for Development of Affordable Housing: \$1,800,000
- b. Indebtedness for Set-asides Deferred (Sec. 33334.6): \$ \_\_\_\_\_
- c. Loans Receivable for Housing Activities: \$ \_\_\_\_\_
- d. Residual Receipt Loans: \$ \_\_\_\_\_
- e. ERAF Loans Receivable (all years) (Sec. 33681): \$ \_\_\_\_\_
- f. Other Assets (Specify) \_\_\_\_\_: \$ \_\_\_\_\_

6. Total Fund Equity (4.+5a. through 5f.): \$3,900,000

This line must equal line 39c. of the Balance Sheet on the State Controller's Annual Report of Financial Transactions of Community Redevelopment Agencies.

7. Total Equities

(From line 39c. of the State Controller's Balance Sheet): **THIS LINE MUST EQUAL LINE 6.** \$3,900,000

**Excess Surplus**

Pursuant to Section 33080.7, report any excess surplus funds (as defined in Section 33334.12(G)(1)). Excess surplus exists for the current reporting year if the Adjusted Balance (Schedule HCD-C, line item 9b.(3)) of your agency's **1997/98 reporting forms** exceeds the greater of \$1,000,000 or the aggregate amount of tax increments deposited into the Fund during the prior four fiscal years. (See the table in Schedule HCD-C page 4, line 8a., for **the current reporting year**).

"Encumber" means committing funds pursuant to a legally enforceable contract or agreement for expenditure for authorized redevelopment housing activities (Section 33334.12(g)(2)). In accordance with Section 33334.12(g)(3)(A) and (B), the unencumbered balance may be adjusted to account for any remaining revenue added from debt proceeds and the difference between the sales price of land for affordable housing and its fair market value.

## EXAMPLE 1

1. **Identify the Adjusted Balance from your previous year's reporting forms:** From Example 1, HCD Page 3 of 5 for the 1997/98 reporting forms line 9b.3, the Adjusted Balance is \$800,000. Enter this amount on the 1998/99 reporting forms in the column, "Adjusted Balance in the Housing Fund at the Beginning of the Reporting FY\*" in Table 8a. for the 1998/99 reporting year. From now on this amount will be referred to as simply "Adjusted Balance".
2. **Determine whether excess surplus exists:** Compare the Adjusted Balance (entered in table 8a. for the 1998/99 reporting year noted above in #1) and the amount of tax increment deposited into the Housing Fund during the preceding four fiscal years. There is no excess surplus if the previous reporting year's final Adjusted Balance is less than either: (1) \$1,000,000, or (2) the sum of the previous four year's deposited tax increments. For excess surplus to exist, the Adjusted Balance must be greater than both: (1) \$1,000,000, and (2) the sum of all tax increment deposited into the Housing Fund during the preceding four fiscal years.
3. **Calculate Excess Surplus:** In this example, the Total Tax Increment Deposited in the Housing Fund for the previous four years is \$1,150,000 (See the 1998/99 reporting forms, Schedule HCD-C, line 8a.). The Adjusted Balance does not exceed \$1,000,000 therefore no excess surplus exists.

### TO CALCULATE THE ADJUSTED BALANCE TO BE USED TO DETERMINE THE NEXT REPORTING YEAR'S EXCESS SURPLUS:

4. **Calculate the Unencumbered Balance:** The Hometown Redevelopment Agency has a Beginning Cash and Investment Balance of \$2,100,000, Total Receipts from Project Areas of \$450,000 and Total Expenditures and Uses of \$ 450,000 which leaves Net Resources Available (End of Year) of \$2,100,000.

The Net Resources Available of \$2,100,000 is transferred from line 4 to line 8b(1). When you subtract Total Encumbrances (all that have agreements or contracts as defined in the H&SC Section 33334.12(g)(2)) of \$700,000 from the Net Resources Available of \$2,100,000, you arrive at the amount of Unencumbered Balance of \$1,400,000. It is important to report the Designated and Undesignated portions of the Unencumbered Balance. In this example, the Designated portion is \$1,000,000 and the Undesignated portion is \$400,000.

5. **Calculate the Adjusted Balance:** In Example 1, the original debt proceed amount was \$1,000,000, but \$550,000 is the debt proceeds balance that remains in the Housing Fund as of 6/30/99.

From the Unencumbered balance of \$1,400,000, the debt proceeds of \$550,000 (as defined in H&SC Section 33334.12(g)(3)(B)) are subtracted to arrive at the Adjusted Balance of \$850,000. **REMEMBER, ONLY INCLUDE THE UNSPENT PORTION OF THE DEBT PROCEEDS AND INCOME RELATED THERETO REMAINING IN THE HOUSING FUND AT THE END OF THE REPORTING YEAR.** This Adjusted Balance will be used for the determination of excess surplus for the 1999/2000 reporting year.



EXAMPLE 1

Excess Surplus

Pursuant to Section 33080.7, report any excess surplus funds (as defined in Section 33334.12). An excess surplus exists for a fiscal year if the unencumbered balance in the Housing Fund at year end exceeds the greater of \$1,000,000 or the aggregate amount of tax increments deposited into the Fund during the preceding four fiscal years. "Encumbering" means committing funds pursuant to a legally enforceable contract or agreement for expenditure for authorized redevelopment housing activities. In accordance with Section 33334.12(g)(3)(A) and (B), the unencumbered balance may be adjusted to account for revenue added from debt proceeds or the difference between the sales price of land for affordable housing and its fair market value.

9.a. Fill in the following table to calculate and track your agency's excess surplus amounts for each fiscal year since FY 93/94.

Fiscal Year	Total Tax Increments Deposited in Housing Fund	Sum of Tax Increments in Housing Fund from Previous Four FYs	Total Unencumbered Balance in Housing Fund at End of FY*	Excess Surplus	Amount Expended and Encumbered against Excess Surplus, for each FY, as of 6/30/98	Remaining Excess Surplus, for each FY, as of 6/30/98
93-94	\$ 200,000			\$ _____	\$ _____	\$ _____
94-95	\$ 250,000			\$ _____	\$ _____	\$ _____
95-96	\$ 300,000			\$ _____	\$ _____	\$ _____
96-97	\$ 350,000			\$ _____	\$ _____	\$ _____
97-98		\$1,100,000	\$ 800,000	\$ 0		

\* Unencumbered balance for FY 97-98 should equal item 6 on previous page unless adjustments are made per 9.b., below.

b. Are you eligible to adjust the total unencumbered balance? If yes, identify the type and amount of the adjustment below:

1. Unencumbered balance from line 6 on previous page:

\$ 1,500,000
2. Adjustments:

Debt Proceeds (33334.12(g)(3)(B):

(\$ 700,000)

Land Sales (33334.12(g)(3)(A):

(\$ \_\_\_\_\_)
3. Adjusted Balance:

Enter this amount in the "Total Unencumbered Balance in Housing Fund at End of FY" column, for FY 97-98 (above).

\$ 800,000

c. If you reported an excess surplus for the current fiscal year, briefly summarize the agency's plan (authorized in Section 33334.10) for encumbering or expending that amount:

d. If plan described in 9.c. was adopted, give adoption date: \_\_\_\_\_/\_\_\_\_\_/\_\_\_\_\_

# EXAMPLE 1

Agency Name: Hometown Redevelopment Agency

## 8. Excess Surplus (continued):

- a. Fill in the following table to calculate and track your agency's excess surplus amounts for each fiscal year since FY 94/95.

Fiscal Year	Total Tax Increments Deposited in Housing Fund	Sum of Deposited Tax Increment in Housing Fund from Previous Four FYs	Adjusted Balance in the Housing Fund at the Beginning of the Reporting FY*	Excess Surplus	Amount Expended and Encumbered against Excess Surplus, for each FY, as of Reporting FY end.	Remaining Excess Surplus, for each FY, as of Reporting FY end.
94-95	\$ <u>250,000</u>			\$ _____	\$ _____	\$ _____
95-96	\$ <u>250,000</u>			\$ _____	\$ _____	\$ _____
96-97	\$ <u>300,000</u>			\$ _____	\$ _____	\$ _____
97-98	\$ <u>350,000</u>			\$ _____	\$ _____	\$ _____
98-99		\$ <u>1,150,000</u>	\$ <u>800,000</u>	\$ -0-		

\* *Adjusted Balance at the beginning of FY 98-99 is equal to the amount reported last year on HCD-C, Page 3 of 5, line 9b(3).*

- b. Are you eligible to adjust the Unencumbered Balance (End of Year)? If yes, identify the type and amount of the adjustment below in lines (4)(a) and (4)(b):

(1) Net Resources Over (Under) Expenditures and Uses (from line 4 on previous page): \$ 2,100,000

(2) Total Encumbrances (End of Year)-see Section 33334.12(g)(2) for a definition.  
(Amount of line 8b(1) (above)) encumbered per agreement or contract: (\$ 700,000)

(3) Unencumbered Balance (End of Year [8b(1) - 8b(2)]): \$ 1,400,000

Breakdown of Unencumbered Balance (End of Year):

(a) Unencumbered Designated (portion of line 8b(3)) \$ 1,000,000

(b) Unencumbered Undesignated (portion of line 8b(3)) \$ 400,000

(4) Less Adjustments:

(a) Debt Proceeds (33334.12(g)(3)(B)): (\$ 550,000)

**NOTE: ONLY INCLUDE THE UNSPENT PORTION OF THE DEBT PROCEEDS AND INCOME RELATED THERETO REMAINING IN THE HOUSING FUND AT THE END OF THE REPORTING YEAR.**

(b) Land Sales (33334.12(g)(3)(A)): (\$ \_\_\_\_\_)

(5) Adjusted Balance: \$ 850,000

- c. If you reported an excess surplus for the current reporting year, briefly summarize the agency's plan (authorized in Section 33334.10) for encumbering or expending that amount:

d. If plan described in 8c. was adopted, enter the date the plan was adopted: \_\_\_\_\_/\_\_\_\_\_/\_\_\_\_\_

## EXAMPLE 2

1. **Identify the Adjusted Balance from your previous year's reporting forms:** From Example 2, HCD Page 3 of 5 for the 1997/98 reporting forms line 9b.3, the Adjusted Balance is \$1,200,000. Enter this amount on the 1998/99 reporting forms in the column, "Adjusted Balance in the Housing Fund at the Beginning of the Reporting FY\*" in Table 8a. for the 1998/99 reporting year. From now on this amount will be referred to as simply "Adjusted Balance".
2. **Determine whether excess surplus exists:** Compare the Adjusted Balance (entered in table 8a. for the 1998/99 reporting year noted above in #1) and the amount of tax increment deposited into the Housing Fund during the preceding four fiscal years. There is no excess surplus if the previous reporting year's final Adjusted Balance is less than either: (1) \$1,000,000, or (2) the sum of the previous four year's deposited tax increments. For excess surplus to exist, the Adjusted Balance must be greater than both: (1) \$1,000,000, and (2) the sum of all tax increment deposited into the Housing Fund during the preceding four fiscal years.
3. **Calculate Excess Surplus:** In this example, the Total Tax Increment Deposited in the Housing Fund for the previous four years is \$1,150,000 (See the 1998/99 reporting forms, Schedule HCD-C, line 8a.) which is subtracted from the Adjusted Balance of \$1,200,000 to determine the Excess Surplus of \$50,000.

### TO CALCULATE THE ADJUSTED BALANCE TO BE USED TO DETERMINE THE NEXT REPORTING YEAR'S EXCESS SURPLUS:

4. **Calculate the Unencumbered Balance:** The Hometown Redevelopment Agency has a Beginning Cash and Investment Balance of \$2,100,000, Total Receipts from Project Areas of \$450,000 and Total Expenditures and Uses of \$ 450,000 which leaves Net Resources Available (End of Year) of \$2,100,000.

The Net Resources Available of \$2,100,000 is transferred from line 4 to line 8b(1). When you subtract Total Encumbrances (all that have agreements or contracts as defined in the H&SC Section 33334.12(g)(2)) of \$700,000 from the Net Resources Available of \$2,100,000, you arrive at the amount of Unencumbered Balance of \$1,400,000. It is important to report the Designated and Undesignated portions of the Unencumbered Balance. In this example, the Designated portion is \$1,000,000 and the Undesignated portion is \$400,000.

5. **Calculate the Adjusted Balance:** Example 2 includes land purchased out of the Housing Fund which has a fair market value of \$300,000 and is sold for \$200,000. The deficit (as defined in H&S section 3334.12(g)(3)(A)) equals \$100,000 which may be subtracted from the Unencumbered Balance to determine the Adjusted Balance.

From the Unencumbered balance of \$1,400,000, the Land Sales deficit of \$100,000 is subtracted to arrive at the Adjusted Balance of \$1,300,000. **REMEMBER:** The deficit can only be deducted if an agency sells, leases, or grants land acquired with moneys from the Housing Fund for an amount which is below fair market value, and if at least 49 percent of the units constructed or rehabilitated on the land are affordable to lower income households. This Adjusted Balance will be used to determine excess surplus for the 1999/2000 reporting year.

EXAMPLE 2

Excess Surplus

Pursuant to Section 33080.7, report any excess surplus funds (as defined in Section 33334.12). An excess surplus exists for a fiscal year if the unencumbered balance in the Housing Fund at year end exceeds the greater of \$1,000,000 or the aggregate amount of tax increments deposited into the Fund during the preceding four fiscal years. "Encumbering" means committing funds pursuant to a legally enforceable contract or agreement for expenditure for authorized redevelopment housing activities. In accordance with Section 33334.12(g)(3)(A) and (B), the unencumbered balance may be adjusted to account for revenue added from debt proceeds or the difference between the sales price of land for affordable housing and its fair market value.

9.a. Fill in the following table to calculate and track your agency's excess surplus amounts for each fiscal year since FY 93/94.

Fiscal Year	Total Tax Increments Deposited in Housing Fund	Sum of Tax Increments in Housing Fund from Previous Four FYs	Total Unencumbered Balance in Housing Fund at End of FY*	Excess Surplus	Amount Expended and Encumbered against Excess Surplus, for each FY, as of 6/30/98	Remaining Excess Surplus, for each FY, as of 6/30/98
93-94	\$ 200,000			\$ _____	\$ _____	\$ _____
94-95	\$ 250,000			\$ _____	\$ _____	\$ _____
95-96	\$ 300,000			\$ _____	\$ _____	\$ _____
96-97	\$ 350,000			\$ _____	\$ _____	\$ _____
97-98		\$1,100,000	\$1,200, 000	\$ 100,000		

\* Unencumbered balance for FY 97-98 should equal item 6 on previous page unless adjustments are made per 9.b., below.

b. Are you eligible to adjust the total unencumbered balance? If yes, identify the type and amount of the adjustment below:

1. Unencumbered balance from line 6 on previous page:

\$ 1,500,000
2. Adjustments:

Debt Proceeds (33334.12(g)(3)(B):

(\$ \_\_\_\_\_)

Land Sales (33334.12(g)(3)(A):

(\$ 300,000)
3. Adjusted Balance:

Enter this amount in the “Total Unencumbered Balance in Housing Fund at End of FY” column, for FY 97-98 (above).

\$ 1,200,000

c. If you reported an excess surplus for the current fiscal year, briefly summarize the agency's plan (authorized in Section 33334.10) for encumbering or expending that amount:

d. If plan described in 9.c. was adopted, give adoption date: \_\_\_\_\_/\_\_\_\_\_/\_\_\_\_\_

**EXAMPLE 2**Agency Name: Hometown Redevelopment Agency8. Excess Surplus (continued):

- a. Fill in the following table to calculate and track your agency's excess surplus amounts for each fiscal year since FY 94/95.

Fiscal Year	Total Tax Increments Deposited in Housing Fund	Sum of Deposited Tax Increment in Housing Fund from Previous Four FYs	Adjusted Balance in the Housing Fund at the Beginning of the Reporting FY*	Excess Surplus	Amount Expended and Encumbered against Excess Surplus, for each FY, as of Reporting FY end.	Remaining Excess Surplus, for each FY, as of Reporting FY end.
94-95	\$ <u>250,000</u>			\$ _____	\$ _____	\$ _____
95-96	\$ <u>250,000</u>			\$ _____	\$ _____	\$ _____
96-97	\$ <u>300,000</u>			\$ _____	\$ _____	\$ _____
97-98	\$ <u>350,000</u>			\$ _____	\$ _____	\$ _____
98-99		\$ <u>1,150,000</u>	\$ <u>1,200,000</u>	\$ <u>50,000</u>		

\* *Adjusted Balance at the beginning of FY 98-99 is equal to the amount reported last year on HCD-C, Page 3 of 5, line 9b(3).*

- b. Are you eligible to adjust the Unencumbered Balance (End of Year)? If yes, identify the type and amount of the adjustment below in lines (4)(a) and (4)(b):

(1) Net Resources Over (Under) Expenditures and Uses (from line 4 on previous page): \$ 2,100,000

(2) Total Encumbrances (End of Year)-see Section 33334.12(g)(2) for a definition.  
(Amount of line 8b(1) (above)) encumbered per agreement or contract: (\$ 700,000)

(3) Unencumbered Balance (End of Year [8b(1) - 8b(2)]): \$ 1,400,000

Breakdown of Unencumbered Balance (End of Year):

(a) Unencumbered Designated (portion of line 8b(3)) \$ 1,000,000

(b) Unencumbered Undesignated (portion of line 8b(3)) \$ 400,000

(4) Less Adjustments:

(a) Debt Proceeds (33334.12(g)(3)(B)): (\$ \_\_\_\_\_)

**NOTE: ONLY INCLUDE THE UNSPENT PORTION OF THE DEBT PROCEEDS AND INCOME RELATED THERETO REMAINING IN THE HOUSING FUND AT THE END OF THE REPORTING YEAR.**

(b) Land Sales (33334.12(g)(3)(A)): (\$ 100,000)

(5) Adjusted Balance: \$ 1,300,000

- c. If you reported an excess surplus for the current reporting year, briefly summarize the agency's plan (authorized in Section 33334.10) for encumbering or expending that amount:

d. If plan described in 8c. was adopted, enter the date the plan was adopted: \_\_\_\_/\_\_\_\_/\_\_\_\_

### EXAMPLE 3

1. **Identify the Adjusted Balance from your previous year's reporting forms:** From Example 3, HCD Page 3 of 5 for the 1997/98 reporting forms line 9b.3, the Adjusted Balance is \$1,500,000. Enter this amount on the 1998/99 reporting forms in the column, "Adjusted Balance in the Housing Fund at the Beginning of the Reporting FY\*" in Table 8a. for the 1998/99 reporting year. From now on this amount will be referred to as simply "Adjusted Balance".
2. **Determine whether excess surplus exists:** Compare the Adjusted Balance (entered in table 8a. for the 1998/99 reporting year noted above in #1) and the amount of tax increment deposited into the Housing Fund during the preceding four fiscal years. There is no excess surplus if the previous reporting year's final Adjusted Balance is less than either: (1) \$1,000,000, or (2) the sum of the previous four year's deposited tax increments. For excess surplus to exist, the Adjusted Balance must be greater than both: (1) \$1,000,000, and (2) the sum of all tax increment deposited into the Housing Fund during the preceding four fiscal years.
3. **Calculate Excess Surplus:** In this example, the Total Tax Increment Deposited in the Housing Fund for the previous four years is \$ 950,000 (See the 1998/99 reporting forms, Schedule HCD-C, line 8a.). In this case, \$1,000,000 NOT \$950,000 is subtracted from the Adjusted Balance of \$1,500,000 to determine the Excess Surplus of \$ 500,000. **REMEMBER: To determine excess surplus, the Adjusted Balance is subtracted from \$1,000,000 when the sum of the previous four years is less than \$1,000,000.**

#### TO CALCULATE THE ADJUSTED BALANCE TO BE USED TO DETERMINE THE NEXT REPORTING YEARS EXCESS SURPLUS:

4. **Calculate the Unencumbered Balance:** The Hometown Redevelopment Agency has a Beginning Cash and Investment Balance of \$2,100,000, Total Receipts from Project Areas of \$450,000 and Total Expenditures and Uses of \$ 450,000 which leaves Net Resources Available (End of Year) of \$2,100,000.

The Net Resources Available of \$2,100,000 is transferred from line 4 to line 8b(1). When you subtract Total Encumbrances (all that have agreements or contracts as defined in the Health and Safety Code Section 33334.12(g)(2)) of \$700,000 from the Net Resources Available of \$2,100,000, you arrive at the amount of Unencumbered Balance of \$1,400,000. It is important to report the Designated and Undesignated portions of the Unencumbered Balance. In this example, the Designated portion is \$1,000,000 and the Undesignated portion is \$400,000.

5. **Calculate the Adjusted Balance:** Example 3 has no adjustments therefore, the Unencumbered Balance equals the Adjusted Balance.

This Adjusted Balance will be used for the determination of excess surplus for the 1999/2000 reporting year.

EXAMPLE 3

Excess Surplus

Pursuant to Section 33080.7, report any excess surplus funds (as defined in Section 33334.12). An excess surplus exists for a fiscal year if the unencumbered balance in the Housing Fund at year end exceeds the greater of \$1,000,000 or the aggregate amount of tax increments deposited into the Fund during the preceding four fiscal years. "Encumbering" means committing funds pursuant to a legally enforceable contract or agreement for expenditure for authorized redevelopment housing activities. In accordance with Section 33334.12(g)(3)(A) and (B), the unencumbered balance may be adjusted to account for revenue added from debt proceeds or the difference between the sales price of land for affordable housing and its fair market value.

9.a. Fill in the following table to calculate and track your agency's excess surplus amounts for each fiscal year since FY 93/94.

Fiscal Year	Total Tax Increments Deposited in Housing Fund	Sum of Tax Increments in Housing Fund from Previous Four FYs	Total Unencumbered Balance in Housing Fund at End of FY*	Excess Surplus	Amount Expended and Encumbered against Excess Surplus, for each FY, as of 6/30/98	Remaining Excess Surplus, for each FY, as of 6/30/98
93-94	\$ 200,000			\$ _____	\$ _____	\$ _____
94-95	\$ 225,000			\$ _____	\$ _____	\$ _____
95-96	\$ 230,000			\$ _____	\$ _____	\$ _____
96-97	\$ 335,000			\$ _____	\$ _____	\$ _____
97-98		\$ 990,000	\$1,500,000	\$ 500,000		

\* Unencumbered balance for FY 97-98 should equal item 6 on previous page unless adjustments are made per 9.b., below.

b. Are you eligible to adjust the total unencumbered balance? If yes, identify the type and amount of the adjustment below:

1. Unencumbered balance from line 6 on previous page:

\$ 1,500,000
2. Adjustments:

Debt Proceeds (33334.12(g)(3)(B):

(\$ \_\_\_\_\_)

Land Sales (33334.12(g)(3)(A):

(\$ \_\_\_\_\_)
3. Adjusted Balance:

Enter this amount in the "Total Unencumbered Balance in Housing Fund at End of FY" column, for FY 97-98 (above).

\$ 1,500,000

c. If you reported an excess surplus for the current fiscal year, briefly summarize the agency's plan (authorized in Section 33334.10) for encumbering or expending that amount:

d. If plan described in 9.c. was adopted, give adoption date: \_\_\_\_\_/\_\_\_\_\_/\_\_\_\_\_

**EXAMPLE 3**

Agency Name: \_\_\_\_\_

8. \_\_\_\_\_:

a. \_\_\_\_\_  
since FY 94/95.

Fiscal	Total Tax Increments  Housing Fund	Sum of Deposited  Housing Fund from Previous Four	Adjusted Balance in the Housing Fund at the Reporting FY*	Excess Surplus	and Encumbered against Excess  FY, as of Reporting FY end.	Excess Surplus, for each FY, as of end.
94-95	<u>225,000</u>			\$ _____		\$ _____
95-96	<u>230,000</u>			\$ _____		\$ _____
96-97	<u>240,000</u>			\$ _____		\$ _____
97-98	<u>255,000</u>			\$ _____		\$ _____
98-99		<u>950,000</u>	\$ _____	\$ <u>500,000</u>		

Page 3 of 5, line 9b(3).

b. \_\_\_\_\_ r)? If yes, identify the type and amount  
of the adjustment below in lines (4)(a) and (4)(b):

Net Resources Over (Under) Expenditures and Uses (from line 4 on previous page): \$ \_\_\_\_\_

(2) Total Encumbrances (End of Year)-see Section 33334.12(g)(2) for a definition. (\$ \_\_\_\_\_)

(3) \$ 1,400,000

(a) Unencumbe \$ 1,000,000  
Unencumbered Undesignated (portion of line 8b(3)) 400,000

(4)

(a) Debt Proceeds (33334.12(g)(3)(B)): \_\_\_\_\_)

**PROCEEDS AND INCOME RELATED THERETO REMAINING  
IN THE HOUSING FUND AT THE END OF THE REPORTING YEAR.**

Land Sales (33334.12(g)(3)(A)): (\$ \_\_\_\_\_)

Adjusted Balance: \$ \_\_\_\_\_

c. If you reported an excess surpl  
(authorized in Section 33334.10) for encumbering or expending that amount:

d. \_\_\_\_\_/\_\_\_\_\_/\_\_\_\_\_